

Message Text

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ACTION OPIC-06

INFO OCT-01 ARA-10 ISO-00 EB-08 COME-00 AGRE-00 IO-13

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 8326

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E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: FURTHER REPORT ON COCOA PROJECT

REF: SAN JOSE 3543

1. FRED KENT AND DAVID LANDO CALLED ON EMBASSY AUGUST 4 AND DESCRIBED FEATURES OF CUATRO RIOS PROJECT. MOST POINTS RAISED ARE CONTAINED IN REFTEL. KENT, HOWEVER, DID POINT OUT THAT FERMENTATION PROCESS TO BE EMPLOYED WAS A KEY TO THE PROJECT. HE STATED THAT PRESENT COSTA RICAN COCOA EXPORTS DID NOT COMMAND WORLD PRICE BECAUSE OF PRIMITIVE PROCESS USED IN FERMENTATION. KENT HAD DISCUSSED THIS DEFICIENCY IN COSTA RICAN COCOA EXPORTS WITH OFFICIALS OF HERSHEY WHO ARE TRYING TO DIVERSIFY THEIR FOREIGN SOURCES OF COCOA BEANS. HERSHSA IS APPARENTLY WILLING TO ASSIST KENT, ET AL, WITH COCOA PROJECT TO EXTENT OF DRAWING UP SPECIFICATIONS FOR FERMENTATION PLANT AND ENTERING INTO SUPPLY CONTRACTS. ACCORDING TO KENT, THE PROCESSING PLANT MATERIALS WOULD COST APPROXIMATELY \$25,000.

2. KENT ALSO CLARIFIED THAT HIS LOAN APPLICATION TO BANCO DE COSTA RICA WAS NOT AN ALTERNATIVE TO OPIC FINANCING BUT WOULD COVER ONLY A PORTION OF THE LOCAL COSTS, IF APPROVED.

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3 COSTA RICA'S PRINCIPAL EXPORTER OF COCOA BEANS (EUROPE, JAPAN AND THE U.S.) CONFIRMED THAT PRIMITIVE FERMENTATION METHODS WERE A CONTRIBUTING FACTOR TO THE LOCAL COCOA BEAN PRODUCTION BEING GENERALLY CLASSIFIED AS FAIR AVERAGE QUALITY (FAQ), AND THUS NOT BRINGING WORLD MARKET PRICES. HOWEVER, HE ALSO

CITED CARELESS PRACTICES IN HANDLING AND SHIPPING, FAILURE TO GRADE, AS WELL AS A TENDENCY TO SUBSTITUTE LOWER QUALITY BEANS THAN CONTRACTS CALLED FOR AS OTHER FACTORS INVOLVED IN THE FAQ DESIGNATION. HE ALSO NOTED THAT COSTA RICAN PRODUCERS WHO USED CORRECT FERMENTATION, HANDLING AND SHIPPING PROCEDURES AND FILLED CONTRACTS WITH THE QUALITY OF BEAN CALLED FOR HAD BUILT UP A REPUTATION AMONG PURCHASERS WHICH ALLOWED THEM TO SECURE THE WORLD MARKET PRICE FOR RMHWXQ PRODUCT. (OPIC MAY WISH TO CONTACT HERSHEY, OTHER U.S. COCOA BEAN IMPORTERS TO VERIFY THE FOREGOING CHARACTERIZATION OF COSTA RICAN COCOA BEAN EXPORTS).

4. THE DEVELOPMENTAL ASPECT OF THE CUATRO RIOS COCOA PROJECT DEPENDS ON THE "DEMONSTRATION EFFECT" ON LOCAL PRODUCERS OF USING CORRECT FERMENTATION TO PRODUCE A BEAN OF UNIFORM HIGH QUALITY WHICH WILL COMMAND THE WORLD MARKET PRICE. IF IT IS TRUE THAT SOME COSTA RICAN COCOA PRODUCERS ARE SECURING THE WORLD MARKET PRICE FOR THEIR COCOA BEANS USING CORRECT FERMENTATION PROCESSES, THERE WOULD APPEAR TO BE OTHER REASONS (LACK OF CAPITAL, SMALL-SCALE OPERATIONS, POOR MANAGEMENT) WHICH PREVENT SOME EXISTING PRODUCERS FROM SECURING THE WORLD MARKET PRICE FOR THEIR PRODUCT. EQUALLY IMPORTANT IS THE LIMITED OFFICIAL USE

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LACK OF QUALITY CONTROL ENDEMIC AMONG SMALL PRODUCERS. IN THIS REGARD, PEACE CORPS HAS PROJECT IN THE PUERTO LIMON AREA TO UPGRADE PROCESSING AND QUALITY OF COCOA BEAN PRODUCTION.

5. WHILE EMBASSY'S PRELIMINARY COMMENTS DID NOT FULLY TREAT THE TRANSFER OF TECHNOLOGY ASPECT OF THE PROJECT, KENT'S PRESENTATION AND OTHER INFORMATION FROM LOCAL INDUSTRY SOURCES SERVE TO CONFIRM EMBASSY'S OPINION THAT PROJECT WILL NOT HAVE ANY SIGNIFICANT DEVELOPMENTAL ASPECT IN TERMS OF TECHNOLOGY TRANSFER. WEISSMAN

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